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THE TARIFF OF 1909[1]

I. ANALYSIS OF THE ACT

After a fiercely contested and long-drawn-out struggle, Congress has passed a new tariff act. This legislation is not the product of the special session of 1909, but is the outcome of serious deliberation within the dominant Republican party extending over a period of at least three years, and of severe, and in the main well-founded, criticism directed by opponents and by non-partisan observers against the Dingley tariff of 1897. Twelve years of experience under the Dingley tariff would necessarily have indicated some points at which bad or erroneous work had been done during the hasty process of revision which occupied the early days of the McKinley administration. Twelve years of industrial development must unquestionably have changed conditions of production and of business organization in such a way that the old rates upon many commodities, whatever their original virtue, had become obsolete or obsolescent. Twelve years of progress in foreign tariff making necessarily altered our relationships to other nations in such a way as to demand readjustments. Behind all these facts, technical in character as they largely were, has lain the increasing dissatisfaction of the consuming masses due to an advance in prices and in cost of living

[1] This is the first of a series of three articles on the tariff of 1909 which Mr. Willis will contribute to this *Journal*. The second article is to deal with the legislative history of the bill. The third will discuss the bearing of the tariff upon the foreign relations of the United States.

only tardily followed by unequal advances in wages. The process of revision culminating in the tariff of 1909 has therefore been the result of undoubted economic and legal changes. It has been dictated only to a minor extent by immediate political considerations, since the disorganization of the Democratic party and its own internal division of opinion upon the tariff question rendered it too small a force to compel a reckoning or to impose its policies upon those in control of the majority.

For these reasons, and for those which they imply, far harsher and more severe standards of judgment should be applied to the tariff of 1909 than to many of its predecessors. Since it was passed immediately after an election won by an overwhelming majority, it cannot be explained on the ground of haste or political fear. It must be taken as indicating the best that the party now in control of national affairs can do in the matter of tariff revision. It should be studied analytically and carefully for the light that it throws upon the conflicting influences at work within the party and for the information it thereby affords with reference to future prospects for tariff revision and industrial readjustment. The tariff of 1909 is in fact a measure of unusual significance—politically, because of the changed alignment of parties which it illustrates; economically, because of the fact that the conditions it establishes will probably be of binding force for some time to come; and internationally, because of the innovation it makes in our commercial dealings with foreign countries.

I

Central in interest in the new tariff law is the question: What has this act done with reference to rates and duties? Has it raised rates or lowered rates, on the whole? Has it introduced any innovations or changes in methods of imposing rates? Has it rectified the abuses of the older tariff, or has it retained these or added new ones designed to favor special interests? These questions may well receive chief notice in a descriptive account of the law; and among them attention must first be given to the question whether or not the new act has raised rates on the whole, or has lowered them.

There is no factor in the whole tariff situation as developed under the law of 1909 that has produced so much controversy as the question of the level of rates. From the time that the original House measure was first introduced, to the 5th of August, when the President signed the bill, there was controversy as to the actual *ad valorem* increase or decrease brought about by the law. As will be seen in a subsequent discussion of this subject, the legislative history of the bill was rich in computations designed to exhibit with more or less accuracy the effect of the measure in this regard. Speaking generally, it may be said that much of the controversy was due to difference of basis in the matter of computation; or to the omission or inclusion of articles or sets of articles, differently dealt with in the different estimates; or to some other conflicting use of figures, facts, and conclusions. At least five or six different points of view were adopted in the course of the discussion. At first, it was a favorite practice to base comparative figures upon the total value of imports entering the United States, whether dutiable or free, in order to ascertain the average *ad valorem* equivalent of the amount of money thus collected. Later, the point of view changed, and in most of the conflicting estimates comparisons were based upon the amount of actually dutiable imports entering the United States as contrasted with the amount of duties collected thereon. Still later, when it was found that the comparisons thus instituted tended to discredit the leadership of those in charge of the bill, the effort was made to base argument upon the amount of "consumable goods" of a given kind produced in the United States as compared with the amount of similar consumable goods entering the country and the rate of duty collected thereon. Throughout the discussion, the effort was made to distinguish between articles of "voluntary use" or "luxuries" and "necessities." A further attempt to classify goods as "crude" or "manufactured" was discouraged by the dominant party because of its necessary implications to those whose "crude products" were to be lightly taxed. It is not necessary at this point to discuss the various absurdities and inconsistencies of these comparisons. What the ordinary consumer wants to know is, not whether he might abstain from

using a given article, but what it costs him to purchase the commodities to which he has been accustomed. He wishes to know, therefore, what actual rate of tariff duty was collected upon the imported goods which bore it and upon how large an aggregate of goods it was thus imposed. He wishes to know further whether the effect of such duties was to enhance or reduce domestic prices, and, independent of the question of importations, he desires to know how far conditions of local production and sale have been altered. It is obvious that much of this information cannot be derived from mere statistics; yet a statistical comparison indicating the amount of revenue collected under the various schedules of the old law and the amounts likely to be collected under the schedules of the new law as based thereon, have a certain interest. Not until experience lasting over one or two years has come in to rectify the hypothetical elements of the computation can it be positively asserted how much revenue will be collected under the new legislation or what relation this will bear to the total of goods entering the country. In the course of the tariff discussion several computations, prepared by men more or less expert in the handling of tariff returns and therefore entitled to serious consideration and comparison, were prepared. Without stopping at this point to consider in detail the legislative conditions under which these comparisons were made, it will suffice to supply the following tabular review of the new law in its practical workings as seen from two different angles.

From this showing, it may fairly be said that a substantial agreement has been arrived at by the various investigators. Except for political purposes it is a matter of no particular interest whether there was a minute increase or a minute decrease in the general *ad valorem* rates as compared with the Dingley law. The substantial and fair conclusion to be reached from a comparative study of the figures already presented is that there was not much change. The revenue to be collected under the tariff of 1909 will undoubtedly bear very much the same proportion to the volume of imported goods that was borne under the Dingley law. The evidence, as will be seen when we come to examine the legislative side of the measure, tends to give support to those who

STATEMENT PREPARED BY THE REPUBLICAN MAJORITY OF THE SENATE FINANCE COMMITTEE

[The *ad valorem* figures are based on the dutiable values.]

Schedules	Value of Merchandise Dutiable and Free	Revenue Under		Equivalent *ad valorem*	
		Act of 1897	Conference Bill	Act of 1897	Conference Bill
	Dollars	*Dollars*	*Dollars*	*Percentage*	*Percentage*
A. Chemicals, oils, and paints	41,329,675.85	11,124,088.61	10,619,095.21	27.64	28.26
B. Earths, earthenware, and glassware	31,326,109.47	15,350,019.67	15,283,206.15	49.03	48.79
C. Metals, and manufactures of	68,194,136.11	21,882,145.87	21,360,128.88	32.59	31.33
D. Wood, and manufactures of	24,818,753.90	3,701,201.76	3,170,917.53	14.91	12.79
E. Sugar, molasses, and manufactures of	92,784,081.69	60,338,523.31	59,635,886.65	65.03	65.30
F. Tobacco, and manufactures of	29,959,081.79	26,125,037.41	26,113,185.29	87.20	87.18
G. Agricultural products and provisions	64,917,221.87	19,203,886.36	20,432,014.39	30.14	32.19
H. Spirits, wines, and other beverages	23,083,420.03	16,318,120.14	20,575,894.52	70.69	89.13
I. Cotton manufactures	31,857,017.07	14,284,628.15	16,126,096.98	44.84	50.62
J. Flax, hemp, and jute, and manufactures of	123,075,272.44	49,890,953.69	50,295,043.55	43.72	44.07
K. Wool, and manufactures of	62,831,601.31	36,561,217.64	36,435,453.56	58.19	57.99
L. Silks and silk goods	38,816,839.20	20,313,706.39	20,445,130.77	52.33	52.67
M. Pulp, papers, and books	20,005,025.62	4,136,029.42	4,328,812.57	20.67	23.43
N. Sundries	147,284,417.06	29,887,883.19	27,970,502.01	22.51	24.34
Total from customs	800,282,653.41	329,117,441.61	332,791,368.06	.....	.....
Net increase	....	....	3,673,926.45	.....	.....
Total luxuries, articles for voluntary use, dutiable	329,912,382.35	162,493,497.23	170,512,172.28	51.48	53.55
Total necessaries, dutiable	470,370,271.06	166,623,944.38	162,279,195.78	36.37	36.78
Total entries for consumption, dutiable and free	1,415,402,284.78	329,117,441.61	332,791,368.06	23.25	23.51
Total necessaries, dutiable and free	1,085,489,902.43	166,623,944.38	162,279,195.78	15.35	14.95

STATEMENT PREPARED BY THE DEMOCRATIC MINORITY OF THE SENATE FINANCE COMMITTEE

Schedules	Imports, 1907 Affected by Change in Tariff Values	Revenue		Comparison of Revenue		Total Revenue Collected in 1907	Equivalent *ad valorem*	
		Act of 1897	Estimated under Conference Report	Amount of Increase	Amount of Decrease		Percentage Net Increase	Percentage Net Decrease
	Dollars	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Average*	*Average*
A. Chemicals, oils, and paints	7,214,063.93	2,387,858.31	2,825,706.74	774,861.77	337,013.34	11,124,088.61	3.94	....
B. Earths, earthenware, and glass	3,622,420.07	1,640,768.58	1,572,782.03	166,679.27	234,665.82	15,350,019.67	....	0.44
C. Metals, and manufactures of	36,253,815.25	8,546,658.73	8,231,119.23	1,591,139.48	1,906,678.98	21,882,145.87	....	1.44
D. Wood, and manufactures of	19,967,861.61	2,455,281.36	1,875,422.17	190,432.05	770,291.24	3,701,201.76	....	15.64
E. Sugar, and manufactures of	116,451.70	85,067.76	82,411.15	....	2,656.61	60,338,523.31	....	0.00
F. Tobacco, and manufactures of	No change	....	....	....	....	26,125,037.41	....	....
G. Agricultural products and provisions	12,727,141.43	4,042,022.54	5,310,270.32	1,363,692.15	95,444.37	19,203,886.36	6.60	....
H. Spirits, wines, and beverages	23,083,420.03	15,808,791.41	20,034,898.99	4,226,107.58	....	16,318,120.14	25.89	....
I. Cotton manufactures	16,480,242.01	7,506,752.71	9,348,247.00	1,844,551.36	3,056.07	14,284,628.15	12.89	....
J. Flax, hemp, and jute, and manufactures of	36,824,407.12	9,856,792.74	10,359,116.29	789,369.30	287,045.75	49,890,953.69	1.01	....
K. Wool, and manufactures of	2,472,220.13	2,514,800.83	2,389,061.15	....	125,739.68	36,561,217.64	....	0.34
L. Silks and silk goods	21,678,924.72	10,486,600.46	10,893,160.49	921,410.38	514,850.35	20,313,706.39	2.00	....
M. Pulp, papers, and books	5,046,511.80	1,216,751.60	1,614,423.16	424,189.17	26,517.61	4,136,029.42	9.61	....
N. Sundries	53,123,898.06	10,796,926.24	8,941,818.50	2,115,283.89	3,970,391.63	29,887,883.19	....	6.21
Total	238,611,197.86	77,345,073.27	83,478,438.22	14,407,716.40	8,274,351.45	329,117,441.61	1.76	....

Total value of all merchandise imported, 1907	$800,282,653.41
Value of merchandise imported 1907, affected by change in tariff	238,611,197.86
Percentage of total imports affected by change in tariff	29.82
Net increase of revenue	6,133,364.95
Average increase in duty, per cent	1.88

maintain that the tariff of 1909 is a slight advance, on the whole, over its predecessor. That advance does not exceed, in all probability, 2 per cent. None of the conservative estimators who have sought to defend the tariff law have been disposed to maintain that it carried a reduction on the whole of more than 1½ or 2 per cent. The difference in opinion then as to the general scope of the act is limited to a range of not much more than 3 or 4 per cent. With agreement as substantial as this, it may fairly be said that the tariff of 1909 represents no very material alteration from the general level of duties previously established, but is to all practical intents identical. If the margin of error in the forecasts of the yield of the new bill do not themselves exceed 3 or 4 per cent., it will be a rather remarkable statistical outcome. We may rest content, therefore, with the opinion that in so far as mere general *ad valorem* figures can convey a tariff situation, there is no advantage to the consumer and no sacrifice to the manufacturer accruing from the new enactment.

II

But, as has been said, far too great stress can be and is laid upon the general average of figures showing the relation between revenues and importations. It might be quite possible that the revenue collected and its *ad valorem* relationship to importations should remain the same, but that the burden thus imposed upon the tax-payers of the country might be made very much easier to bear through readjustments which would more evenly and fairly distribute the load. One way in which this result might be attained is seen in minute and careful sub-classification of products and the adjustment of duties to the particular cost of production and conditions of international competition in each of these lines. This plan has been followed with much success by several European countries in their tariff revisions of recent years. It was sought, notably, in the new German tariff, to secure so elaborate and complete a sub-classification of articles as to insure a practically separate listing for each kind of goods, thus permitting the establishment of a separate duty thereon, instead of lumping together a considerable number of articles of

different kinds under one general heading or number in the tariff bill. The new German tariff contains about 3,000 numbers;[2] the Dingley law contained about 705. Our new tariff of 1909 contains but 718. This would indicate that but little was done by the framers of the tariff of 1909 toward securing a more adequate classification of commodities and a better adjustment, therefore, of the burden of tariff taxation—a reform which was urgently pressed upon them prior to the special session by a very substantial number of economists and tariff experts. The superficial indication thus afforded is moreover accurate in its bearing upon the facts in the case. There was no effort whatever, throughout the whole course of the special session, to undertake anything like a serious reclassification of goods. Although in some paragraphs of the tariff new descriptions were added, old descriptions modified, and readjustments thus made, it cannot be said that the tariff of 1909 is more adequate to its purpose in this regard than was its predecessor. Substantially the same distribution of burdens is made by the new tariff law; while in some cases the most flagrant abuses of the act of 1897 were left to stand unchanged, and at other points the innovations made were more objectionable than the provisions which they displaced. This faultiness in construction was characteristic of the tariff measure throughout. Congress appeared to be hampered and crippled at every turn by a lack of command over sources of information. The data upon which it had expected to depend in framing the new schedules was inadequately and erroneously put together by untrained men employed by the committees of the House and the Senate having to do with the matter. The effort to recognize "costs of production" as a factor in the revision, which was announced at the outset as one of the dominating ideas that were to be followed out during the revision, came to nothing, as the result of the inability of our consuls and special agents to supply material that was of much service. As a result, therefore, the new legislation leaves the country with substantially the same tariff construction that it had prior to the passage of

[2] The actual numbers are 943, but the sub-classifications raise the figure, roughly, to about 3,000.

the present bill. It cannot be said that so far as the technique of the law is concerned the act represents any real progress.

III

Complex and involved as the tariff bill itself is, a thorough review of its contents and the elimination of matters upon which comment is unnecessary leaves the remaining substance in a singularly compact and comprehensible shape. The first and perhaps the most interesting aspect of the several dutiable schedules is the evidence of what was not done. At a number of points where revision was strongly demanded both by popular sentiment and by the change in industrial conditions, the old schedules were left to stand exactly as they stood under the Dingley law, or so nearly in the same shape as to call for no comment. Practically, the schedules in which no important changes were introduced were those of sugar and its products; wool, its products, and woolens;[3] tobacco and manufactures thereof. To these should be added schedule J, relating to flax, hemp, and jute, and manufactures thereof; schedule H, on spirits, wines, and other beverages; and the bulk of schedule G, on agricultural products and provisions. As limitations upon the foregoing statement should be noted the three slight changes, none of them of any importance, made in schedule K, on wool and manufactures thereof; one equally unimportant change in schedule E, relating to sugar, molasses, and manufactures thereof; and a general increase on spirits, wines, and other beverages (schedule H), which however was of no broad importance since it neither introduced a change in the mode of assessing duties nor affected a commodity in which the bulk of the community was vitally interested. In schedule J (flax, hemp, jute, etc.) several changes were made, but none of serious significance. The crucial schedules, which were selected as the material for discussion and alteration of duties, were schedule A (chemicals, oils, and paints); schedule B (earths, earthenware, and glassware); schedule C (metals and manu-

[3] Three entirely unimportant and insignificant changes were introduced into the Dingley woolen schedule. These were inserted in paragraphs 375, 377, 380, and 381.

factures of metals); a part of schedule D (wood and manufactures of wood); a part of schedule I (cotton manufactures); schedule L (silks and silk goods); and a few scattered items in other schedules. It will be well to defer to a later point consideration of the question why the tariff of 1909 did not introduce alterations into some of the most important and most defective schedules—the woolen schedule for instance—but left them exactly where they stood, or so nearly in that position as to render comment unnecessary. For the present, then, attention will be confined to a review of the actual changes brought about in the crucial schedules where alterations took place.

No schedule received a more general discussion or was modified in more numerous particulars than schedule C, which dealt with metals. Among metals commanding importance was of course attached to iron, steel, and their products. Under the Dingley law, iron ore had carried a tariff rate of 40 cents per ton; pig iron, $4 per ton; steel rails, $7.84 per ton; and heavy products of the furnace had been taxed at varying and minutely graded rates upon a pound basis. Under the new tariff the rate was cut on iron ore from 40 cents per ton to 15 cents; on pig iron, from $4 to $2.50; on scrap iron, from $4 to $1. Bar-iron duties, which had ranged from 6-10 to 8-10 of a cent per pound, were now cut to from 3-10 to 6-10 of a cent per pound. Cotton ties, which had paid half a cent per pound, were accorded a reduction to 3-10 of a cent. Steel rails, which had paid $7.84, now paid $3.92 per ton. Steel ingots, on which the rates had ranged from 3-10 of a cent per pound to 4 9-10 cents, were given new rates of from 7-40 of a cent to 4 8-10 cents per pound. Rates were cut from 1 1-4 cents per pound to 1 cent per pound for iron or steel wire of the lower grades and from 2 1-4 cents per pound to 2 cents per pound for wire rope not smaller than No. 13. Reductions of like amount were made in the highly finished products of iron and steel: in almost all cases a percentage was taken off from the old rate of duty. This decrease, taking the schedule as a whole, averaged probably about 1 1-2 per cent., although when stated in actual rates of duty it appeared much larger. The reductions in nominal rates of duty were often

very large as stated in plain figures—as seen for example in the reduction on iron ore from 40 cents to 15 cents. It was, however, a notable fact that throughout the list of iron and steel and their products there were from time to time very large increases of duty. This was true not only of the crude materials such as ferrosilicon, ferrotungsten, and the like, and of tungsten-bearing ores which were free but are now made dutiable at 10 per cent., but was also true of the more highly manufactured articles, such as razors, which received an increase of from 28 to 68 per cent.; of some classes of cutlery, which were given an increase by a change of either their classification or the method of imposing the duty; and of certain items like structural steel which were protected from foreign competition by a change in description likely to prove practically prohibitory. Nor was the metal schedule interesting in its treatment of iron and steel alone. It provided for a very large increase in other directions. Antimony ore which had been free was made to pay 1 cent per pound. Antimony as regulus or metal, which had paid 3-4 of a cent per pound, was now to pay 1 1-2 cents per pound. Zinc ore, which had been free, was now given a duty of 1 cent per pound on the zinc contents of the ore. Duties which had proved extremely burdensome in certain metal manufacturing industries under the Dingley law, were retained at their original figures.

Much was said upon the floor of Congress about the extreme action which had been taken in readjusting the metal schedule—the rate being cut on iron ore by 5-8 of its original amount; on pig iron by 3-8, and on steel rails by 1-2, etc. Without attempting in any way to discredit these assertions, it should be frankly stated that the vast majority of the reductions made in the metal schedule affected articles of which imports had been comparatively trifling. In other words a reduction in tariff rates was made in those cases in which the superiority of the United States had been demonstrated to have been such as more than to offset the extremely moderate reduction—conditions of the industry being considered—which was made in rates. It is a notable fact that, taking the changed items in the metal schedule together, the total revenue estimated as arising under the new tariff from duties on

such items relating to metals and their products was to be $8,200,000, while under the same schedule in the old law the revenue actually arising was about $8,500,000—attention being still confined to the items in which changes had been actually introduced. If attention be extended to the schedule as a whole, including both those items in which changes had been introduced and those in which no changes had been introduced, it appears that the value of all imports entered for consumption for the fiscal year ending June 30, 1907, was about $68,200,000. On this under the Dingley law was received in the year already referred to an income of $21,900,000. The official estimate of the income to arise under the new tariff was $21,400,000—a difference of only about $500,000. The change in equivalent *ad valorem* rates, as officially estimated, was only from 32.59 per cent., under the Dingley law, to 31.35 per cent., under the new law—a reduction of 1.26 per cent. It is obvious from this showing that, so far as actual revenues were concerned, the changes in the metal schedule—most extensively spoken of and most urgently presented to the public as examples of downward tariff revision—were not of material importance.

It cannot be too emphatically stated that in none of the changes thus made was there conveyed an intention to reduce the rates in such proportion as to stimulate importation. As was clearly shown by the testimony of representative steel men at hearings before both the House and the Senate Committees, the rates retained were sufficient to offset any disadvantage in production from which the United States might be suffering. In most lines in which reductions were made the United States enjoyed an actual productive advantage over European countries and would not have suffered from their competition even with no protection whatever. The representatives of the steel industry, although working hard in private to retain as much of their protection as possible, and while bringing every pressure to bear upon members of Congress for the maintenance of higher duties, took a much less open interest in the stituation than did other producers. It was well recognized from the outset that in view of the study given by the government to the cost of steel making,

and in view of the general diffusion of information on the subject, it would be undesirable to attempt any policy except that of comparative frankness with reference to cost, dividends, or profits. On the other hand, the zinc miners, in possession as they were of some of the richest zinc ore-producing fields of the world, were dissatisfied with the profits they were making under a system of free competition with other nations, and insisted upon an extensive advance in their rate of duty, which promptly resulted, within a few weeks after the adoption of the tariff law, in an advance of the price of pig zinc by almost exactly the rate of tariff duty imposed.

Very much the same kind of tariff revision may be observed in what was done by Congress in dealing with schedule A, relating to chemicals, oils and paints. Schedule A includes a very substantial number of reductions of duty, and while there is also a considerable number of increases, the general result is apparently favorable. According to the official computation, the value of the imports for consumption under schedule A in the fiscal year ending June 30, 1907, was $41,329,675. The revenue under the Dingley law in the year referred to was $11,124,088—an equivalent *ad valorem* of 27.64 per cent. The official estimate of incomes under the new tariff showed a probable advance in the *ad valorem* rate to 28.26, or something over 3-5 of 1 per cent., and this in the face of constant argument and assertion to the effect that there had been a real reduction in the schedule. In the effort to establish the existence of such a reduction reference was frequently made to the total number of reductions as compared with the total number of rates remaining stationary or showing an increase. The mere numerical statement of the number of increases and decreases was, however, of no significance except that it suggests the method by which a favorable downward revision was demonstrated. This was done by making cuts affecting numerous articles which were more cheaply produced in this country than elsewhere, at the same time that on other articles the rates were raised enormously. Thus the duties on most of the items in the acid section of the schedule were cut; and the same was true of such items as ammonia and its products; of

borax, on which the duty was cut from about 150 per cent., to about 60 per cent.; of ethers, on some classes of which the duty was cut from 262 per cent. to 52 per cent.; and the like. Possibly the most notable reduction in the whole schedule, and perhaps the only one that had any broad significance, was the reduction on crude and refined petroleum, which, after a long struggle, was made free, whereas it had borne a rate of nearly 100 per cent. under the countervailing provisions of the Dingley law. The kind of tariff revision that was being attempted upon all the crucial items in the drug schedule can be seen at another angle by noting the treatment of extract of quebracho, a tanning extract from South America. This was dutiable at half a cent a pound under the old law. The duty was now raised to 3-4 of a cent for the denser grades, which were the ones chiefly sent to this country. Cutch, formerly free of duty, was now given a duty of 7-8 of a cent a pound. The rate on crude barytes, largely used in making paints, was raised from 75 cents per ton to $1.50 per ton. There were some reductions here and there on drugs like santonin, which had paid $1.00 per pound, but was now given a reduction to 50 cents. Bicarbonate of soda, which had paid 3-4 of a cent per pound, now paid 5-8 of a cent. Duties on other soda derivatives were reduced in similar proportion. The duty on strychnine, formerly 30 cents per ounce, was now made 15 cents; the duty on sulphur, formerly $8.00 a ton, was made $4.00 per ton; and the duty on vanillin, formerly 80 cents per ounce, was made 20 cents per ounce. Some revenue items like soap were given a substantial advance. Taking the schedule as a whole there was an increase in duties of about 4 per cent.

In schedule B, dealing with earths and glassware, similar treatment was to be seen. Advances were made in a considerable number of items, while several were lowered. Among the advances were the rates on cement, pumice stone, certain grades of glass, etc. Among the items on which rates were reduced were firebrick, marble, gypsum, onyx, granite, etc. The net result was to cut the duties by something under 1-2 of 1 per cent. on the whole schedule. A characteristic trick was seen in the duty on electric lighting carbons, which had been 90 cents per 100, but

was now made 65 cents per 100 *feet* on some grades and 35 cents per 100 feet of other grades, the only kind imported in practice being dutiable at the higher rate, which was a large advance over the old duty.

The one class of items in which important innovations were introduced by the new tariff was textiles. These were comprised in schedule I (cotton manufactures), schedule J (flax, hemp, and jute), schedule K (wool and its manufactures), and schedule L (silks and silk goods). As already noted, nothing of significance had been done with respect to wool and woolens. Little change, relatively speaking, had been introduced into the flax and hemp schedule. But both in cottons and in silks extensive alterations have been brought about. The silk schedule (schedule L) was entirely remodeled when the bill was in the Senate. Earlier, the House Committee on Ways and Means had considered the advisability of altering the silk schedule by substituting a set of specific duties for the *ad valorem* or combined specific and *ad valorem* rates which had been characteristic of the tariff of 1897. As will be seen in a subsequent discussion, dealing with the legislative history of the new tariff, the Ways and Means Committee had based its early work upon a proposed schedule submitted by the combined silk manufacturing interests of the United States; but owing to differences of opinion, which developed among manufacturers at the last moment, had finally decided to retain the old rates and to leave the whole matter for further discussion in the upper chamber. There the schedule of duties which had been proposed by the silk manufacturers had been worked over and some technically important changes had been introduced into it. The result was a complete new schedule, with duties estimated purely upon the specific basis and calculated to bring in, it was alleged, very much the same revenue as was derived from the old schedule. The new schedule started with silk partially manufactured from cocoons, etc., at 35 cents per pound, instead of 40 cents under the Dingley law, and then passed on to the higher rates, substituting, for example, for a duty of 20 cents per pound plus 15 per cent., on spun silk, under the Dingley law, a duty of 35 cents per pound; for 30 cents per pound plus 15 per

cent., on the next higher grade of spun silk, under the Dingley law, a duty of 65 1-2 cents per pound, officially estimated as equivalent to 49 per cent. The act contained an elaborate series of new provisions for dealing with the higher grades of spun silk yarn. In these were specified rates by which the tariff should be increased upon the more valuable grades of yarn; such rates of increase being as a rule about 1-15 of a cent per number per pound—this being the differential protection which was demanded by the manufacturers in addition to the rates levied on the lower grades. The duty on thrown silk of the lowest grade, which was 30 per cent. under the Dingley law, was made $1.00 per pound, and that on sewing silk, which had been 30 per cent. under the Dingley law, was made $1.25 per pound. In the case of velvets, plushes, and pile fabrics the lowest rate under the old tariff had been $1.00 per pound plus 15 per cent. This was now changed to $1.75 per pound. And in all cases where the duty ordinarily levied did not amount to 50 per cent. on pile fabrics the new bill made the rate $2.00 per pound. A new provision with reference to velvets, chenilles, and other pile fabrics not specially provided for was included, of which the main feature was the insertion of a new method for determining the class of goods to which a given piece belongs by the length of the pile. The distinction between plushes and velvets was to be determined by regarding those having a pile exceeding 1-7 of an inch in length as plushes, and those which had a pile 1-7 of an inch or less in length as velvets. In some of the higher grades of goods apparent reductions were made. Thus piece fabrics weighing not over 1-3 of an ounce per square yard and dutiable under the Dingley law at $4.50 were made dutiable at $4.00 per pound. Fabrics weighing not less than 1 1-3 ounces, and not more than 8 ounces, per square yard in the gum, which were dutiable at 50 cents per pound under the old law, were made dutiable at 63 3-4 cents per pound. The best grades of this class of goods, containing more than 45 per cent. in weight of silk, had borne a duty of $2.50 per pound, which was lowered to $1.77 1-2 per pound. In the same way, fabrics of this same weight and description, when dyed in the piece, had paid 60 cents per pound on the lower grades, but

were now to pay 77 1-2 cents per pound. The rate for the best grades of these piece goods, which had been $3.00 per pound, was now to be $2.13 3-4. At the close of the schedule there was added as Section 399 a long description covering goods, not specially provided for, composed wholly or in chief value of silk. In this provision was set forth a schedule of rates covering those goods not classifiable under the descriptions already given, the duties specified being intended to increase at a regulated rate in proportion as the goods likely to be subject to the provision represented a higher or lower degree of manufacture. No one but a technical expert familiar with the industry could positively assert the probable effect of this elaborate new provision, but various estimates of the effect of the duties indicate that they will operate as a very material advance upon the lower-priced silks, in which considerable competition has already been encountered by our silk-makers. It should be added, however, that for the silk schedule as a whole even the minority members of the Finance Committee did not estimate the average increase of duty as more than 2 per cent. The silk schedule received far less than the usual amount of attention in the course of the tariff debate, critics feeling that as silks are undeniably an article of luxury they could well spend their efforts in an attack upon some other schedule, leaving the rates on this class of goods to be established as might be deemed wisest by the majority.

Far different was the attitude adopted with respect to cotton textiles. The cotton textile schedule represented a group of goods of wide general consumption, necessary in their character to practically every consumer in the land, and produced with great success by mills known to be yielding enormous profits. They were consequently regarded as legitimate objects for minute and careful discussion. Early in the history of the tariff bill, while the measure was still in the House of Representatives, the associated cotton manufacturers of New England had appeared before the Ways and Means Committee and had asserted their substantial satisfaction with the existing rates of duty. The House bill had therefore contained few changes, of which the chief was a duty of 1 cent a yard on mercerized

goods, to cover the supposed cost of the process of mercerization, and a second, a change in the method of establishing the classification of the goods by counting the threads. The latter had proved extremely obnoxious and had been omitted while the measure was on the floor of the lower chamber. In the Senate, however, this provision was reintroduced, and a series of important and drastic changes were made throughout the schedule. As finally passed, the cotton schedule contained, embodied in Section 320, the following provision for determining the count of threads:

> The term cotton cloth or cloth wherever used in the paragraphs of this schedule, unless otherwise specially provided for, shall be held to include all woven fabrics of cotton in the piece or cut in lengths, whether figured, fancy or plain, the warp and filling threads of which can be counted by unraveling or other practicable means, and shall not include any article finished or unfinished, made from cotton cloth. In determining the count of threads to the square inch in cotton cloth, all the warp and filling threads, whether ordinary or other than ordinary, and whether clipped or unclipped, shall be counted. In the ascertainment of the weight and value upon which the duties, cumulative or other, imposed upon cotton cloth are made to depend, the entire fabric and all parts thereof, and all the threads of which it is composed, shall be included. The terms bleached, dyed, colored, stained, mercerized, painted, or printed, wherever applied to cotton cloth in this schedule shall be taken to mean respectively all cotton cloth which either wholly or in part has been subjected to any of these processes, or which has any bleached, dyed, colored, stained, mercerized, painted, or printed threads in or upon any part of the fabric.

Inasmuch as paragraph 313 had contained a provision—

> that all the foregoing threads and yarns as hereinbefore provided, when mercerized or subjected to any similar process, shall pay in addition to the foregoing specific rates of duty one-fortieth of one cent per number per pound,

the provisions of paragraph 320 evidently imposed the additional duty for mercerization upon all goods that contained even a thread of mercerized yarn; while the further provision regarding the count of threads, that "all the warp and filling threads" should be included, operated practically to double the duties on some classes of goods, inasmuch as under the former method of counting, "double yarns," where the thread was twisted to-

gether out of two or more finer yarns, had been counted as a single thread. In addition to these subtle ways of increasing the tariff, the schedule furthermore openly provided for direct advances in duty of very substantial amount. In each of the paragraphs relating to cotton cloth there was added a provision intended to cover the more highly valued goods which had formerly come in at tolerably reasonable rates on the basis of the "count of threads." For example, cotton cloth not exceeding 50 threads to the square inch, and undyed, had paid one cent per square yard under the old tariff. It was now to pay 2 1-4 cents per square yard. When bleached, such cloth had paid 1 1-4 cents per square yard. It was now to pay 7. When dyed or colored, such cloth had paid 2 cents per square yard. This rate was retained. But in addition it was provided that when such cloth was valued at not over 7 cents per square yard, and unbleached, it should pay one cent per square yard; if bleached, and valued at not over 9 cents per square yard, it was to pay 1 1-4 cents. If dyed or colored, and valued at not over 12 cents per square yard, it was to pay 2 cents per square yard. In the next paragraph, relating to cloth exceeding 50 and not exceeding 100 threads per square inch, the minimum classification was made 1 1-4 cents per square yard. Rates on fabrics of higher values were then added to in the way just indicated, and the same principle was continued throughout the cotton schedule. The effect of these changes was to tax very much more heavily those goods which were within the limits of the lower duties as to count of threads, but which had by reason of artistic or other qualities a higher value. Thus on all open fabrics, with comparatively few threads but carefully made, "sheer," or containing mercerized threads, duties were greatly increased. What was the percentage of increase thus introduced by this plan which was carried through the cotton schedule is a matter about which much difference of opinion has been expressed. It was estimated by New York experts, representing the importers of foreign goods, that some of the increases would amount to from 50 to 75 per cent. of the old duties. This estimate was borne out by check-estimates made by legislators who were somewhat

familiar with the cotton business. Despite sharp denials by Chairman Aldrich and other members of the Finance Committee, it was generally conceded that a very large advance had been made all around. The minority members in their final estimate (prepared by experts furnished by the Treasury Department) placed the average increase in duty at 12.89 per cent., throughout; and the Senate Finance Committee itself conceded an advance of from 6 to 7 per cent.—these percentages in all cases being reckoned as percentages of the value of goods and not as percentages of the original level of duties.

While considerable changes were introduced in the flax, hemp, and jute schedule, they were by no means of the commanding importance that had characterized the cotton and silk duties. On hemp, not dressed, the duty was raised from $20 per ton to $22.50 per ton; on dressed hemp, from $40 to $45 per ton. Cables and cordage were given a reduction from 1 cent per pound to 3-4 of a cent per pound. On threads, twines, or cords, No. 5, duties were cut from 13 cents to 10 cents per pound, and other numbers were given a flat uniform reduction of 1 cent per pound below the Dingley rates. Floor matting of the lower grades, formerly dutiable at 3 cents per square yard, was made to pay 3 1-2. Rates on carpets and rugs of the lower grades were altered from 5 cents per square yard plus 25 per cent. to 4 cents per square plus 30 per cent.—a reduction of some 10 or 12 per cent. Cheap oilcloth received an advance of about 4 per cent.; but on the higher grades duties were cut from about 56 to about 35 per cent. Burlaps, instead of 5-8 of a cent per pound plus 15 per cent., were given 9-16 of a cent per pound plus 15 per cent. Woven fabrics, which had paid 35 per cent. under the old law, now were to pay 45 per cent. The minority members of the Finance Committee estimated the average increase of duties, taking the schedule as a whole, at about 1 per cent.

One of the most ridiculous, if not of the most objectionable schedules of the bill, was schedule G, relating to agricultural products and provisions. Neglecting the obvious facts in the grain trade, Congress attempted to give the impression of great

care for the farmer. Thus on broom corn, which had been free, a duty of $3.00 per ton was imposed; the rate on buckwheat flour was raised from 20 per cent. to 25 per cent.; on oats, from 15 cents per bushel to 20 cents. Hops were given an advance from 12 cents per pound to 16 cents. For some obscure reason the duty on cabbages was dropped from 3 cents each to 2 cents; and on peas, on which the duty had been 30 cents per bushel, it was made 25 cents. Advances, again, were granted on nursery stock of various kinds. Fruits received a general increase—in the case of lemons, from 1 cent per pound to 1 1-2 cents; of pineapples, from 7 cents per cubic foot to 8 cents; of dates, from 1-2 cent per pound to 1 cent. Congress of course struck the usual "blow at the beef trust" by reducing a protection which the trust did not need, giving fresh beef, veal, mutton, pork, etc., 1 1-2 cents per pound instead of 2 cents. The starch duty was cut from 1 1-2 cents per pound to 1 cent, in the interest of consumers who needed it in the manufacture of cloth. Taking the schedule as a whole, there was an average increase of probably something less than 7 per cent.

The lumber schedule was among those that aroused the most extensive and most bitter debate. This was schedule D. The bill as reported cut the duty on rough lumber, not planed or finished, from $1 per thousand feet to 50 cents. Sawed lumber, unfinished, was given a rate of $1.25 per thousand feet in place of $2.00. The "differential" for finishing lumber was somewhat cut. Thus sawed lumber, planed or finished on two sides, under the old bill carried a duty of $2 per thousand feet, as against $1 per thousand feet on the rough. The new bill gave $1.25 per thousand feet on lumber finished on two sides, as against 50 cents on the rough. This was a differential of 75 cents under the new bill, as against $1 under the old. In the same way, sawed lumber, planed on two sides and tongued, under the old bill carried $3.50 per thousand feet, which was now reduced to $2.37 1-2. Clapboards, which had paid $1.50 per thousand, were now made to pay $1.25. The rate on shingles, which had been 30 cents per thousand, was raised to 50 cents.

Closely associated with the wood schedule should be classed schedule M, relating to pulp, paper, and books. There had been a long struggle for reductions of duty on this schedule prior to the assembling of Congress. Nearly a year earlier, Speaker Cannon had appointed a special committee under the chairmanship of Representative Mann, of Illinois, for the study of the tariff on wood, pulp, and print paper. This committee has recommended that wood pulp be admitted free and that print paper be given a duty of $2 per ton, instead of $6 as under the Dingley law. The new tariff nominally made mechanically ground wood pulp free, but imposed a discriminating duty of a twelfth of a cent per pound against those countries which imposed export duties or other exactions. Chemical, unbleached wood pulp had borne a duty of 1-6 of a cent. This was retained, but a discriminating duty of 1-6 of a cent was added. On chemical bleached pulp the rate had been 1-4 of a cent, which in like manner was retained, with a discriminating duty of 1-4 of a cent. Print paper, which had paid 3-10 of a cent per pound ($6 per ton) on the lower grades, was now made to pay 3-16 of a cent per pound ($3.75 per ton), plus the discriminating duties. Surface-coated paper was given a large advance, and the same action was taken with regard to lithographic work. A heavy advance was made on writing paper. All this was by way of concession to the paper and pulp interests, so strongly represented in the Senate. The average increase in duty on this schedule amounted to about 10 per cent.

The "sundries" schedule (schedule N) included a considerable number of important items. Among these were coal, on which the duty was cut from 67 cents per ton to 45 cents. Gunpowder and explosives were granted a cut from 4 and 6 cents to 2 and 4 cents. On crude feathers the rate was increased from 15 per cent. to 20 per cent. On feathers colored, manufactured, etc., the increase was from 50 per cent. to 60 per cent. Hides of cattle, over which one of the principal struggles of the session raged, had paid 15 per cent., but were now made free; and manufactures of leather, which had paid 20 per cent. on most grades, were now made to pay 15 per cent. on most. Boots and

shoes, formerly at 35 per cent., were now rated at 20. Saddlery, which formerly paid 45 per cent., was to pay 20 per cent. when made from free hides, and otherwise, 35 per cent. Gloves, upon which an excessive increase had been attempted, were, after an ultimatum from the President, continued at substantially the old rates, a few changes of little importance being introduced with lower duties in favor of the consumer. An amusing feature of schedule N was seen in the imposition of a tax of 35 per cent. (alternative to $7 per gross ton per annum), upon foreign-built yachts owned by Americans. The duties on agricultural implements were cut from 20 to 15 per cent. Ancient works of art were admitted free.

III

In summing up the changes in duty made by the tariff law considerable difficulty must necessarily be encountered. From what has been said it is plain that on the whole no reduction in duties occurred, but rather an increase. This, however, is not out of harmony with the belief that a few valuable changes were made. The reduction in the duty on iron ore; the transfer of hides to the free list, with corresponding reductions in the rates on boots and shoes, and on other leather goods; the cut in lumber; the placing of works of art on the free list; the changes affecting some chemical products; and a few others, were undoubtedly of importance and interest to the public. It can fairly be said, however, even from the standpoint of the rational and decided advocate of protection that in few of these cases where reductions were made was the cut sufficient to produce a real influence, or adequate to relieve the consumer of unfavorable conditions, or anything like what had been attempted to begin with. The placing of hides on the free list stands out as an exception, but even this was not accompanied by a sufficient reduction in the rates on leather goods. This negative character of the tariff law in those phases where reductions were actually achieved was also noticeable throughout. The act was far more remarkable for what it did not do than for what it did. Thus in the two vital schedules—sugar and wool—in which already

duties were admittedly and obviously far in excess of what was ever needed, and outrageously beyond any protection that could be said to be even remotely required by the industries at the present time, practically no change was made. President Taft explained the failure to tamper with the wool schedule, in a subsequent public address, by saying that the woolen men were too strong for the tariff revisionists. This was obviously the case, but there were other reasons for the total failure to relieve the sufferings of the country under the barbarities of the wool and sugar duties. The general advance in the rates on cottons, effected by Chairman Aldrich after one of the bitterest struggles in recent legislative history, was perhaps the most indefensible aspect of the measure. But throughout the whole bill there was an obvious attempt to juggle with schedules; to secure advantage for special private interests by cunning adjustment of rates or by the insertion of "jokers" designed to prevent nominal reductions from taking effect; or to advance old rates which were already too high.

The tariff as a whole, taken in its features relating to rates, presents nothing of theoretical interest to the economic student of such legislation. Not in scientific reclassification, nor in reduction of duties to correspond with lowered cost of production, nor in the selection of new and better modes of imposing tariffs, nor in better adjustment of rates as between raw materials and manufactured derivatives thereof, was there any significant improvement. It has been said by some that it would have been preferable to continue the Dingley tariff in operation; and although a few items gained militate against the acceptance of this pessimistic opinion, it must be asserted without question that the tariff contains nothing whatever to justify the enormous expenditure of time, money, and popular attention which it has involved, or to offset the disorganization in business caused by uncertainty as to the outcome and by the various shifts and changes in rates which made their appearance as the bill was slowly pushed along from stage to stage. The measure can only be described as a most unwarrantable re-enactment of special favors and as a barefaced violation of party pledges, points both

of which are susceptible of ample proof and verification from documentary sources as well as from personal testimonies rendered by those who participated in, and by those who observed, the process of legislation. From the legislative standpoint the bill can only be regarded as an unwholesome epitome of dishonest bargains, and crooked political chicanery. That it was such was freely admitted by men of all shades of political opinion; and the sole apology that has been presented for it has been that it is "the best that was to be had"!

IV

Turning from the dreary paragraphs relating to duties to Section 2 of the bill, an interesting aspect of the legislation is uncovered. As has been shown in former contributions to this *Journal,* one of the principal causes which led to the undertaking of tariff revision during past years was the prevailing dissatisfaction due to the state of our commercial relations with foreign countries. In Section 2 of the tariff bill Congress attempted to provide for a new basis of relationship by establishing a so-called "maximum tariff system." This effort included several distinct and important points: (1) It was provided that an addition of 25 per cent. flat should be made to our whole schedule of duties after March 31, 1910, in the case of those countries which continued to discriminate against the United States by enforcing against us an unusually high level of duties. (2) It was directed that the existing commercial treaties should all be terminated and our foreign relations should be placed upon the new basis. (3) The President was authorized to employ certain "persons" to assist him in applying the terms to the new tariff. While the wording of this section went through various changes in the process of legislation, the draft which finally assumed a place in the tariff law was intended to vest the President with a considerable amount of power over tariff negotiations with other countries. The use of the term "unduly" as well as of the word "reciprocal" in Section 2 seemed to indicate that the administration was not to insist upon receiving the full minimum rates of every country with which we should enter into negotiations, but

might traffic with such countries in order to establish a set of rates which should be in our judgment a satisfactory exchange for our abstention from the imposition of the higher rates, 25 per cent. *ad valorem* above the minimum or general level of the tariff. This was a decidedly different policy from any adopted by foreign countries, since our administration can now only grant our full list of minimum rates or apply our full list of maxima. There is no intermediate ground. The authority given to the President to appoint such persons as he might choose was exercised by President Taft not long after the passage of the tariff in the appointment of a board of three persons, working under the Treasury Department and appointed for the study of foreign tariffs. These "persons" were H. C. Emery, of Yale University, James B. Reynolds, Assistant Secretary of the Treasury, and Alvin H. Sanders, of Chicago. Prior to the appointment of this board, notice had been given to the various countries, parties to our commercial agreements, of the approaching end of the arrangement with us. In those agreements which specified a period for the giving of notice, this period was observed, and thus the time when our full rates would be applied to those countries on the commodities mentioned in the agreements was deferred in some cases a year. In others, the period being only six months, a correspondingly earlier date of termination was set; while in a few where no date of termination was established the limit was fixed at the end of October, 1909. Inasmuch as the reciprocity rates set in these agreements were considerably lower than the minimum rates on such articles as wines under the new tariff, a limited period of discrimination between these three groups of countries was thus inaugurated. This was the first problem of the new tariff board, which has set itself to a study of our relations with foreign countries and of the necessary adjustments which must be made in determining our tariff attitude toward them.

V

Second only in importance to the provisions of the tariff of 1909 regarding the schedules of duties must be classed the pro-

visions relating to the administration of the tariff. The tariff contained a re-enactment of the customs-administration law of 1890 with important innovations calculated to alter in a very material way the operation of the act itself. Chief among these alterations was the establishment of a court of customs appeals. The provision for this court was carried in subsection 29 of Section 28 of the law, and directed the creation of such a court, to consist of a presiding judge and four associate justices; its headquarters to be in Washington, and its jurisdiction to include all appeals from decisions of the United States Board of General Appraisers. All customs cases previously decided by a circuit or district court of the United States, or a court of a territory of the United States, and not removed from those courts by an appeal or writ of error, as well as all cases submitted for decision in those courts and remaining undecided, will be transferred to the Court of Customs Appeals. Owing to opposition and friction in securing the desired salaries for the members of this proposed court, the court was not organized immediately after the passage of the tariff law and it was determined to defer the whole subject until after the opening of the next session of Congress. The object in mind in organizing this court was obvious. It was intended to do away with the frequent reversals of the United States Board of General Appraisers which had been common in United States Courts and thereby to maintain duties on a generally higher level. This was fully admitted in the course of debate. Closely to be considered in connection with the creation of the Court of Customs Appeals is the fact that the new tariff made provision for rescinding the most important administrative concessions which had been allowed by President Roosevelt to the countries with which commercial agreements had been concluded during the latter part of his administration. The most important change here introduced was seen in the revocation of the system of foreign export values. Under the commercial agreements it had been provided that where a commodity was specially manufactured for exportation abroad, and hence had no home market value, such export price should be taken as the basis of appraisal in the United

States, subject of course to a process of correction on the basis of cost of production as ascertained by United States agents abroad. The new tariff, however, in Section 28 (subsection 11) provided that "the actual market value or wholesale price as defined by law, of any imported merchandise which is consigned for sale in the United States, or which is sold for exportation to the United States, and which is not actually sold or freely offered for sale in usual wholesale quantities in the open market of the country for exportation, to all purchasers, shall not in any case be appraised at less than the wholesale price at which such or similar imported merchandise is actually sold or freely offered for sale in usual wholesale quantities in the United States in the open market, due allowance by deduction being made for estimated duties thereon, cost of transportation, insurance and other necessary expenses . . . . " etc. The effect of this one provision on certain classes of goods, of which the price is largely due to elements of taste or art, will undoubtedly be to raise the actual duties imposed by from 15 to 20 per cent. Other changes of the same general description were introduced, and, throughout, the apparent effort was to narrow the possibility of concessions to importing or consuming interests and to safeguard more and more fully the supposed interest of manufacturers in the United States.

VI

The tariff act of 1909 not only was important on the side of the legislation relating to duties but was specially significant in its provisions for additional revenue. Early in the process of revision it became clear that such additional revenue must be had. President-elect Taft suggested to the Ways and Means Committee the adoption of an inheritance tax, or a corporation tax, or both. The idea of renewing the stamp taxes was also considered, and, as an alternative, the imposition of tariff duties on tea and coffee. As it fell out, the Ways and Means Committee recommended, and the House passed, an inheritance tax provision estimated to yield from $15,000,000 to $25,000,000. This was promptly disapproved by the large private interests in the Senate, and after considerable controversy the inheritance

tax was withdrawn. Continuous opposition to other forms of taxation led Mr. Aldrich to adopt the view that no additional taxation was necessary, but that the tariff, supplemented by temporary short-time loans, would prove adequate to the needs of the situation. Such was not the view of President Taft; and when a group of Republican radicals, joining with the Democratic members of the upper chamber, succeeded in establishing a combination that bade fair to insert an income tax section in the bill, Mr. Taft joined Senator Aldrich in displacing this proposal by offering a so-called corporation tax. The Senate conservatives grudgingly accepted the President's scheme, which had been drafted by Attorney General Wickersham and ex-Secretary (now Senator) Root. Although the draft was modified a few times by the administration as the bill progressed, it retained substantially its original form throughout. As passed, it became Section 38 of the bill, and provided for a tax of 1 per cent. upon the net earnings of every corporation, with the exception of labor organizations, beneficiary societies, etc., over and above $5,000, which sum was exempted. In reckoning net income there were to be deducted amounts received as dividends on stock of other corporations, and also all ordinary and necessary expenses, losses, interest paid on bonded indebtedness, and taxes payable to the United States or to any state or foreign country. The corporations were to make returns annually to the Commissioner of Internal Revenue, stating their capital, income, losses, and expenditures on a blank to be provided for the purpose; and assessments were to be made by the Commissioner. In the event of refusal to make returns, or of fraudulent returns, a penalty of not less than one nor more than ten thousand dollars was to be incurred. Imprisonment not exceeding one year and a fine of not over $1,000 were to be imposed upon any person guilty of fraudulent or evasive returns.

In addition to the corporation tax, a revision of the tobacco taxes was inserted. On cigars weighing not over three pounds per thousand the tax was raised from 54 cents to $1.00. Cigarettes of various grades, formerly taxable at from $1.08 to $3.00, were now to be taxed at from 75 cents to $3.60. The tax on

snuff was raised from 6 cents per pound to 8 cents, and that on manufactured tobacco was given a like advance.

Supplementary to these pieces of legislation was a provision for borrowing. This was carried in Section 39, which authorized the Secretary of the Treasury to borrow such amounts as might be required to defray Panama Canal expenditures, up to an amount of $290,569,000, which, together with the amount of bonds already issued ($84,631,900) equaled the estimated cost of the Panama Canal. A noteworthy feature of the provision was seen in the clause authorizing the secretary to fix the rate of bond interest at not to exceed 3 per cent. per annum, as against the 2 per cent. previously offered. This was due to the recognition that only with great difficulty could the government in future sell 2 per cent. bonds at par. Additional borrowing power was granted in Section 40, which authorized the Secretary of the Treasury to issue not to exceed $200,000,000 in short term certificates. This took the place of the previous provision allowing the issue of $100,000,000. It was unfortunate that the legislation remained largely nugatory because of the failure of Congress to readjust the circulation taxes on national banknotes. Notes issued on the security of 2 per cent. bonds now pay a tax of 1-2 of 1 per cent. per annum, while notes based on any other government bonds pay 1 per cent. per annum. An issue of 3 per cent. bonds available for circulation would therefore have been more profitable to the banks, which would have obtained a clear 2 per cent. after paying circulation taxes, than the use of old 2 per cent. bonds, which would have netted only 1 1-2 per cent. after paying circulation taxes. It was feared, therefore, that the attempt to borrow money on 3 per cent. bonds would operate to reduce the market price of the two's already held by the banks. Consequently Secretary of the Treasury MacVeagh agreed to issue no 3 per cent. bonds during the autumn season but to content himself with issues of temporary certificates of indebtedness, should any borrowing be necessary. Thus the section relating to loans and currency was as unsatisfactory as the rest of the bill, and left open the main issue for future determination. No one questioned that

the government would have to borrow money for the canal or that the authority would be granted. The only question was how.

VII

From what has been said it is clear that the tariff of 1909 did not essentially change the existing situation with regard to duties, and that its additional provisions were neither well framed nor determined upon in accordance with a careful study of fiscal necessities. How can this situation be explained? It seems difficult to comprehend, even at a short distance in point of time, the enactment of so unusual and unsatisfactory a piece of legislation, or to palliate the grievous blunders and outrageous favoritism by which it was characterized throughout. Far from being a tariff reform, it is undoubtedly a backward step in most particulars. To get an intelligent comprehension of the manifold influences which combined to produce this misbegotten law it is necessary to review in detail the process by which the wishes of the party leaders were forced upon Congress, and the administrative conditions which permitted the bill finally framed to become law. This must be undertaken in a subsequent paper.

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